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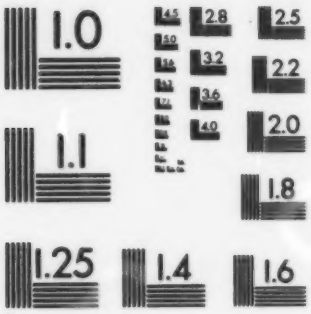

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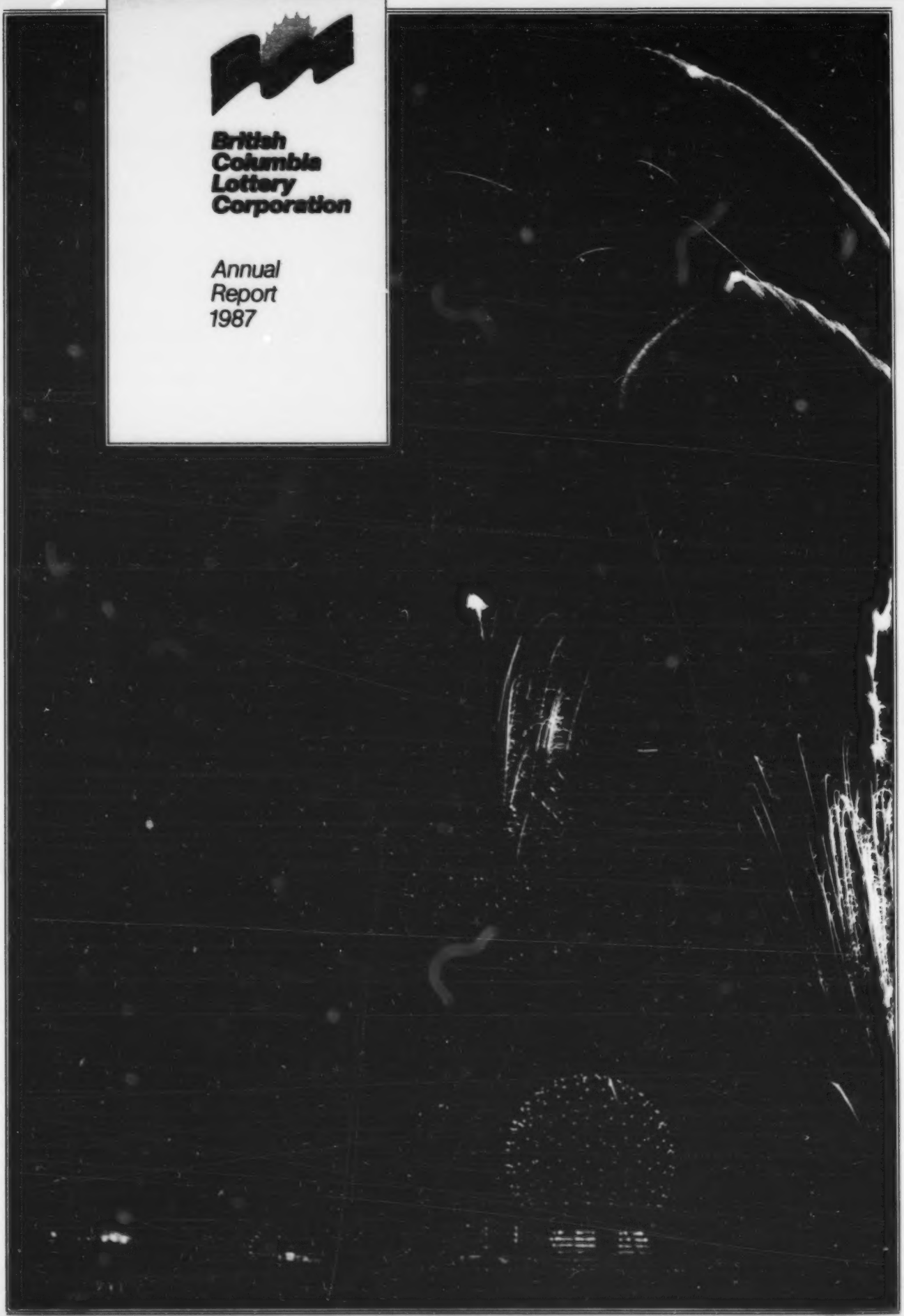

British Columbia Lottery Corporation

Annual Report 1987

British Columbia Lottery Corporation

Annual Report 1987

COVER PHOTO

Photographer Peter Timmerman captured the excitement of EXPO 86 with this shot of the Expo Centre at night lit by fireworks.

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THE HONOURABLE
ELWOOD N. VEITCH
Provincial Secretary
and Minister of
Government Services and
Minister Responsible for the
British Columbia
Lottery Corporation

Elwood Veitch

JAMES R. CHABOT *MLA.*
Columbia River
Chairman

ROBERT S. PLECAS
Deputy Provincial
Secretary and
Deputy Minister
of Government
Services Secretary

GUY SIMONIS
President
British Columbia
Lottery Corporation

The British Columbia Lottery Corporation, in only its second full year of operation as a separate organization, again enjoyed a year of significant growth with record levels of sales and profits.

Sales for the year ending March 31, 1987, were $445 million, an increase of nearly 35 per cent over the previous year. With a population of 2.8 million people, British Columbia has achieved a current consumer spending level of more than $160 per capita.

Net revenue for the year increased by nearly 50 percent to $168 million, of which $160 million was distributed to the Province of British Columbia and $8 million was distributed to the Government of Canada.

Guy Simonis, the President of the British Columbia Lottery Corporation

During the fiscal year, the Corporation added three products to its product line-up, bringing to nine the total of products marketed by the Corporation.

Of the four on-line games, the Canada-wide LOTTO 6/49 game continued to be the "flagship" game of the Corporation. With two drawings per week, LOTTO 6/49 sales amounted to $252 million for the fiscal year.

Rounding out the on-line game product line-up were LOTTO BC, a 5/40 lotto game, LOTTO WEST, a 6/8/56 lotto game and PACIFIC EXPRESS, a traditional 6-digit game offered through the on-line system. In total, sales for the four on-line games represented 66 per cent of total sales volume.

Instant or "Scratch and Win" games continued their growth in popularity and sales, increasing by 35 per cent to $96 million in sales for the fiscal year. It is of interest that, while the Corporation offers four or five different "themes" during the year, the play feature of "Match three alike dollar symbols" has remained constant since inception.

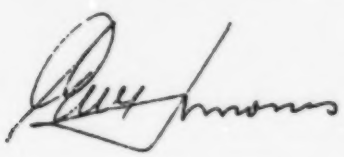
As for the balance of the Corporation's products, the sales of the traditional games, PROVINCIAL and SUPER LOTO, continued to face stiff competition from lottos and instants, decreasing 2 per cent from the previous year to a total of $44 million.

The two newest products to join the Corporation's line-up are breakopen games and bingo paper. Late in the fiscal year, the Corporation introduced breakopen tickets into British Columbia on a limited basis. As well, the Corporation was made responsible for the distribution of bingo paper to charitable organizations within the Province.

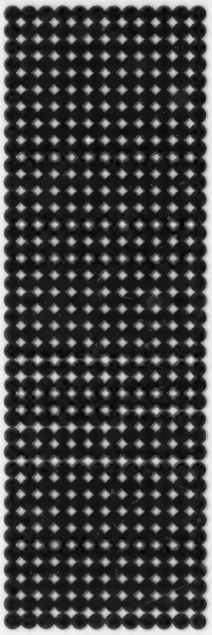
While many sales achievements were realized during the fiscal year, the highlight of the year was the Corporation's participation at EXPO 86. In addition to assisting in the funding of EXPO 86, the Corporation participated at the exposition through on-site lottery drawings and a display of historic lottery artifacts. There were more than two million visits to the lottery exhibit, where visitors viewed, touched and experienced lottery technology from ancient history to the year 2000 and beyond.

In the coming year, market segmentation and product differentiation will be more critical to sales growth. In British Columbia, there will be greater concentration on targeting regional games to specific market segments. Continued sales growth is forecast for Fiscal 1988, however a maturing of the lotto and instant markets will make incremental sales more difficult to achieve.

The past year was a busy and satisfying one for the British Columbia Lottery Corporation and all signs point to continued success.



LOTTERY SALES



($ 1 million per ball)

Lotto 6/49		$251.6
Provincial	20.9	
Super Loto	22.8	
P. Express	12.2	
Lotto West	16.5	
Lotto BC	13.9	
Instant		95.9
Breakopen		9.2
Total Lottery Sales		$443.0
Bingo Paper		1.9
Total		$444.9

BALANCE SHEET

Assets	**1987**	1986
Cash		
Prize funds	**$ 9,291**	$ 4,874
Other	**2,391**	4,074
Receivables (note 3)	**4,268**	9,296
Prepaid expenses	**2,883**	2,202
Fixed assets (note 4)	**17,212**	20,766
	$ 36,045	$ 41,212
Liabilities		
Prizes payable	**$ 9,291**	$ 7,815
Payable to		
Interprovincial Lottery Corporation	**2,688**	4,601
Accounts payable and accrued liabilities	**5,915**	5,912
Deferred revenue	**3,949**	2,523
Due to Government of Canada	**975**	971
Due to Province of British Columbia	**13,227**	19,390
Share Capital (note 5)	**–**	–
	$ 36,045	$ 41,212

British Columbia Lottery Corporation

March 31, 1987

Tabulated figures in thousands of dollars

Approved:

Director

Director

Statement of Changes in Amounts Due to Province of British Columbia

Net Income	**1987**	1986
Balance, beginning of year	**$ 6,108**	$ –
Net Income	**167,836**	113,206
	173,944	113,206
Payments to Province of British Columbia during the year	**152,396**	97,960
Allocation of income to Government of Canada	**8,321**	9,138
	160,717	107,098
Balance, end of year	**$ 13,227**	$ 6,108
Lottery Advances Agreement		
Balance, beginning of year	**$ 13,282**	$ 13,282
Payments during the year (note 6)	**13,282**	–
Balance, end of year	**$ –**	$ 13,282
	$ 13,227	$ 19,390

British Columbia Lottery Corporation

Year Ended March 31, 1987

Tabulated figures in thousands of dollars

Statement of Income

	1987	1986
Lottery Sales (note 7)	**$ 444,935**	$ 330,061
Direct expenses		
Prizes	**203,991**	150,767
Retailer commissions	**24,736**	18,720
	228,727	169,487
Sales less direct expenses	**216,208**	160,574
Operating expenses		
Data processing and network	**10,941**	13,966
Depreciation	**10,577**	8,592
Ticket printing	**10,214**	7,064
Advertising, draws and promotions	**7,374**	7,927
Sales and distribution	**5,113**	4,293
Administration	**4,153**	5,526
	48,372	47,368
Net Income	**$ 167,836**	$ 113,206
Allocation of Net Income		
Government of Canada (note 8)	**$ 8,321**	$ 9,138
Province of British Columbia	**159,515**	104,068
	$ 167,836	$ 113,206

British Columbia Lottery Corporation

Year Ended March 31, 1987

●

Tabulated figures in thousands of dollars

STATEMENT OF CHANGES IN FINANCIAL POSITION

	1987	1986
Cash Provided By (used for)		
Operations:		
Net Income	**$ 167,836**	$ 113,206
Depreciation	**10,577**	8,592
Cash provided by operations	**178,413**	121,798
Change in net trade balances	**3,118**	(6,243)
Increase in prepaid expenses	**(681)**	(1,325)
Increase in prizes payable	**1,476**	7,815
Increase in deferred revenue	**1,426**	127
	183,752	122,172
Financing:		
Payments to Province of British Columbia	**$ (152,396)**	(97,960)
Payments to Government of Canada	**(8,317)**	(8,167)
Repayment of Lottery Advances Agreement	**(13,282)**	–
	(173,995)	(106,127)
Investments:		
Acquisition of fixed assets	**(7,023)**	(7,418)
	(7,023)	(7,418)
Increase in Cash Position	**2,734**	8,627
Cash Position at Beginning of Year	**8,948**	321
Cash Position at End of Year	**$ 11,682**	$ 8,948

British Columbia Lottery Corporation

Year Ended March 31, 1987

Tabulated figures in thousands of dollars

British Columbia Lottery Corporation

Year Ended March 31, 1987

Tabulated figures in thousands of dollars

1. Nature of the Corporation

The British Columbia Lottery Corporation was incorporated pursuant to the Company Act of British Columbia on October 25, 1984.

The Province has designated the Corporation as the authority to conduct and manage lottery games within British Columbia and to co-operate in the conduct and marketing of nationwide and regional games with other Provinces of Canada.

The PACIFIC EXPRESS, Instant, LOTTO BC, LOTTO WEST–THE PICK and Breakopen games are conducted solely by the Corporation in the Province of British Columbia. In addition the Corporation is the sole distributor of Bingo paper in the Province of British Columbia. The Corporation participated in LOTTO WEST, a regional game, in co-operation with the Western Canada Lottery Corporation.

The Corporation is the regional marketing organization for the PROVINCIAL, SUPER LOTO and LOTTO 6/49 games in British Columbia. These games are joint undertakings by all provinces acting through the Interprovincial Lottery Corporation. The Interprovincial Lottery Corporation is incorporated under the Canada Business Corporations Act, and its shares are held by Her Majesty The Queen in right of the respective provinces.

2. Significant Accounting Policies

The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles.

A. Deferred Revenue and Expenses

Revenue and expenses relating to draws held during the year ended March 31, 1987, are included in the statement of income on an accrual basis. Receipts from the sale of lottery tickets related to draws held subsequent to March 31, 1987, have been recorded as deferred revenue. Retailer commissions on these sales have been recorded as prepaid expenses.

B. Capital Expenditures

The Corporation's policy on capital purchases is that any major purchase which has a future useful life beyond the current year and which will materially affect income in the year purchased, will be capitalized. These expenditures include the cost of leasehold improvements, renovations and furniture for the Corporation's offices in Kamloops, Richmond and Victoria, major computer equipment purchases, all on-line gaming terminals and all components of the Corporation's sign and fixture program for placement at the on-line game retailers' locations.

The Corporation's capital assets are recorded at their original cost and are depreciated on a straight-line basis according to their estimated useful life, using the following rates:

Leasehold improvements	20 %
Furniture and equipment	20 %
Computer equipment	33⅓%
On-line gaming terminals	33⅓%
Signs and fixtures:	
Computer	33⅓%
Non-computer	20 %

C. Free Tickets

Sales are reduced by the retail value of free tickets redeemed by the retailers.

3. Receivables

	1987	1986
Retailers	$ 3,664	$ 4,848
Western Canada Lottery Corporation	–	3,502
Other	604	946
	$ 4,268	$ 9,296

4. Fixed Assets

	Cost	Accum Depn	1987 Net	1986 Net
On-line gaming terminals	$ 15,119	$ 9,387	**$ 5,732**	$ 8,694
Central system computer hardware	8,270	5,151	**3,119**	4,789
Leasehold improvements	7,751	2,822	**4,929**	5,089
Furniture and equipment	2,665	1,052	**1,613**	2,074
Signs and fixtures	2,576	757	**1,819**	120
	$ 36,381	$ 19,169	**$ 17,212**	$ 20,766

5. Share Capital

Authorized: 10,000 common shares without par value
Issued: 1 common share for $1.00

6. Lottery Advances Agreement

On March 27, 1987 the advance outstanding of $13,282,332 was repaid in full.

7. Lottery Sales

	1987	1986
Nationwide Games		
Lotto 6/49	**$ 251,561**	$ 178,484
Super Loto	**22,811**	25,137
Provincial	**20,948**	19,855
	295,320	223,476
British Columbia Games		
Lotto West	**14,768**	19,437
Lotto West–The Pick	**1,741**	–
Pacific Express	**12,234**	15,788
Lotto BC	**13,874**	–
Instant	**95,874**	71,360
	138,491	106,585
Breakopen	**9,244**	–
Bingo Paper	**1,880**	–
	$ 149,615	106,585
Total	**$ 444,935**	$ 330,061

8. Payments to Government of Canada

The Interprovincial Lottery Corporation makes inflation adjusted payments to the Government of Canada as a result of an agreement between the provincial governments and the Government of Canada on the withdrawal of the Government of Canada from the lottery field. The Corporation remits British Columbia's share of the above payments to the Interprovincial Lottery Corporation. Payments under this agreement are estimated to be $4,600,000 for the year ended March 31, 1988.

In addition, a further agreement was signed between the provinces and the Government of Canada whereby the provinces agreed to remit a further $100 million to the Government of Canada over three years commencing in 1985. The Corporation's share of this payment for the year ended March 31, 1988 is estimated to be $3,883,000. The final payment under this agreement is due on December 31, 1987.

Tabulated figures in thousands of dollars

9. Interprovincial Lottery Corporation Expenses and Interest Revenue

The Corporation's share of the Interprovincial Lottery Corporation's operating expenses ($453,907) and interest revenues ($1,054,683) are reflected in these financial statements.

10. Lease Obligations

Long-term office space leases will expire as follows:

Kamloops	1994
Richmond	1995
Victoria	1988

Minimum annual rental payments for the next five years are:	1987
1987–88	$794
1988–89	$757
1989–90	$764
1990–91	$786
1991–92	$786

11. Comparative Amounts

The comparative amounts reflected in these statements have been reclassified from the amounts previously presented to conform to the presentation of these financial statements.

British Columbia Lottery Corporation

Year Ended March 31, 1987

Tabulated figures in thousands of dollars

AUDITORS' REPORT

To the Directors of the British Columbia Lottery Corporation

We have examined the balance sheet of the British Columbia Lottery Corporation as at March 31, 1987, and the statements of income, changes in amounts due to the Province of British Columbia, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987, and the results of its operations, and the changes in the amounts due to the Province of British Columbia, and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cook Bryan MacFayden

Kamloops, B.C.
May 30, 1987

Cook Bryan MacFayden
Chartered Accountants

They came from around the world – and they saw the world in Vancouver – at EXPO 86. The British Columbia Lottery Corporation was proud to be a part of the exposition in two important ways.

The B.C. Lottery Fund contributed a total of $250 million to the exposition and $20 million to the British Columbia Pavilion. Secondly, the British Columbia Lottery Corporation was an exhibitor at EXPO 86. The Corporation's high-profile location in the BCTV Pavilion garnered two million visits, an average 10,000 per day, for the lottery exhibit.

Guest relations staff answered thousands of questions about the history, technology, integrity and beneficiaries of lotteries, enlightening visitors on the complexity of lottery operations in the province. Many were not aware of the intricate procedures behind the sale of lottery tickets and draws of winning numbers.

The visual displays included material on the origins of lotteries; from a Chinese lottery game played since 100 B.C., to fund-raising lotteries held in North America in the 17th century, including tickets from lotteries designed by historical figures such as George Washington. Looking to the future, visitors had the chance to key in their favourite numbers to create sample tickets at the demonstration player-operated ticket terminals.

The weekly highlight of the Corporation's exhibit was the live broadcast of Lotto Night in B.C., a half-hour show including draws, interviews with winners and features. Many visitors to the exhibit found the live draws area particularly interesting and waited with anticipation to view the proceedings in person. The draws often featured special guests from around the world, including staff from the international pavilions, and local celebrities.

People from all over the world were interested to find out about British Columbia's lottery games, how they are played and where the money goes.

The information provided at the British Columbia Lottery Corporation exhibit at EXPO 86 helped boost the profile and image of all lotteries around the world by explaining the history and development of lottery games. The corporation was proud to be an exhibitor at EXPO 86 and was proud to be a source of funds for the exposition.

Everyone's dream – to become a millionaire – came true for 19 British Columbians this year. Those millionaires weren't the only winners, however. A total of 21 million prizes were paid out by the British Columbia Lottery Corporation during the year. These prizes amounted to a grand total of $204 million with the top single winner in the province taking home a cheque for $7.8 million. More than 4.6 million prizes were paid out from LOTTO 6/49 alone for a total of $122 million. And that's just British Columbia.

Laura Ledger (centre) and family smile about Ford Taurus won on Pacific Express bonus draw.

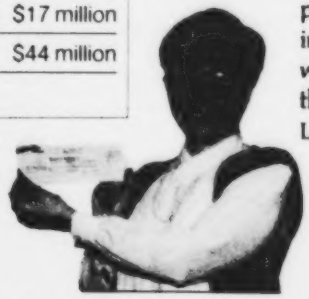
MORE SMALLER PRIZES

Big winners in British Columbia receive a lot of media attention, but it's interesting to note just how many winners there are in the smaller prize categories. More than 12 million prizes ranging from $2 to $10,000 were paid to the winners of instant games last year, while players who matched three numbers on the LOTTO 6/49 draw, $10 winners, took home a total of $44 million.

Players matching four numbers on LOTTO 6/49 won $17 million, while those matching five numbers on a 6/49 draw came away with a total of $9 million.

Correctly choosing

MORE MONEY IN SMALLER PRIZES	
6 correct	$38 million
5 correct plus bonus	$14 million
5 correct	$ 9 million
4 correct	$17 million
3 correct	$44 million



Margaret Kerr won $10,000 on 12 Days of Christmas.

Lotteries of the past – an early lottery ball mixer and an original ticket signed by John Hancock – from the Corporation's exhibit at EXPO 86.

Earl, Norma, Kathy and Rob Ham celebrate a $1 million win.

five numbers plus the bonus number resulted in a total of $14 million in prizes for British Columbia's LOTTO 6/49 players. The total of prizes paid out to the British Columbia jackpot winners, those who matched all six numbers, was $38 million.

Driving It Away

Among British Columbia's happy winners this year were 183 lucky people who drove their prize away.

Sixty luxurious Cadillacs were won by British Columbia lottery players in a 1986 SUPER LOTO bonus draw.SUPER LOTO was also the winning vehicle for 72 other winners who drove Ford Lincolns home. A grand total of 51 Ford Taurus cars were taken home on two PACIFIC EXPRESS bonus draws.

Prize Fund

The prize fund is established by setting aside a predetermined percentage of all sales. The prize fund for LOTTO 6/49 totalled $833 million nationally this year. Prize funds for the nationwide games PROVINCIAL SUPER LOTO and LOTTO 6/49 are administered by the Interprovincial Lottery Corporation.

All prize claims are met from the prize fund. If any funds remain unclaimed after expiry of the one year claim period, this amount is returned to the players later in the form of bonus prizes and bonus promotions.

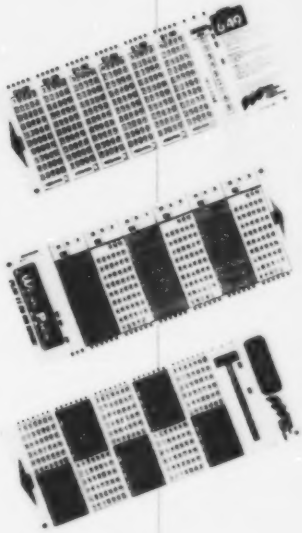
Where The Money Goes

A total of $160 million from sales of lottery tickets in British Columbia was forwarded to the Government of British Columbia this year. Lottery funds are distributed to people and communities throughout the province by the Ministry of Provincial Secretary and Government Services making all British Columbians winners.

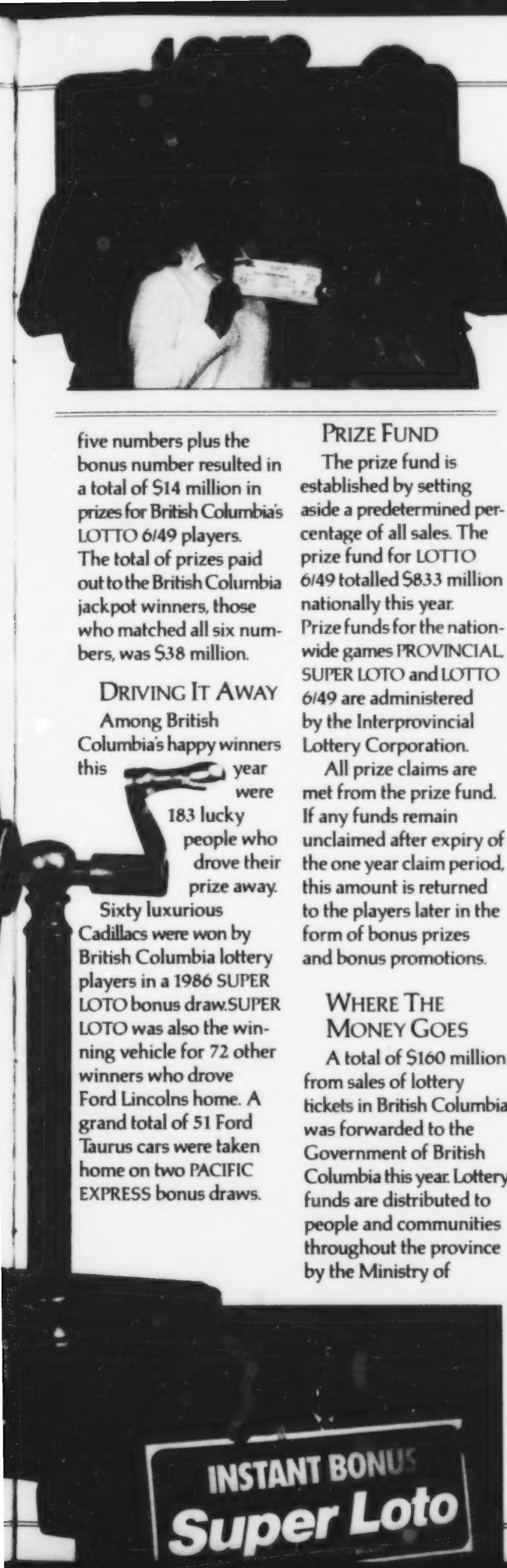
The largest single beneficiary of lottery funds during this fiscal year was EXPO 86, the highly-acclaimed world exposition held in Vancouver. In total, more than $250 million will be contributed to the exposition and a further $20 million set aside to help build the British Columbia Pavilion.

B.C. Lottery funds play a large part in the financing of the British Columbia Winter and Summer Games and Special Olympics. In British Columbia, lottery funds also go to medical research, non-profit community sports organizations, heritage projects, performing arts and culture and other special projects.

Through the federal government, all lottery jurisdictions in Canada will contribute funding to help stage the 1988Winter Olympics in Calgary.



Harmon Pfisterer and wife Sandy are all smiles over the $150,000 he won on Lotto West.



Minister Elwood Veitch presents Peter Wing, former mayor of Kamloops, with a 1987 Lincoln Town Car won on a Super Loto bonus draw.

HEAD OFFICE
74 West Seymour Street
Kamloops, British Columbia
V2C 1E2

VICTORIA
Unit E 661 Alpha Street
Victoria, British Columbia
V8Z 1B5

RICHMOND
10760 Shellbridge Way
Richmond, British Columbia
V6X 3H1

LOTTERY GRANTS
B.C. Lotteries Branch
333 Quebec Street
Victoria, B.C.
V8V 1X4

The Corporation's headquarters in Kamloops